

VZCZCXRO0059
RR RUEHAST
DE RUEHVB #0815/01 1870724
ZNR UUUUU ZZH
R 060724Z JUL 06
FM AMEMBASSY ZAGREB
TO RUEHC/SECSTATE WASHDC 6370
INFO RUEHZL/EUROPEAN POLITICAL COLLECTIVE
RUEATRS/DEPT OF TREASURY WASHDC
RUCPDOG/DEPT OF COMMERCE WASHDC

UNCLAS SECTION 01 OF 02 ZAGREB 000815

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SENSITIVE

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E.O. 12958: N/A
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SUBJECT: NJ-BASED BARR LABS IN BIDDING WAR FOR
CROATIA'S PLIVA

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11. SUMMARY: NJ-BASED BARR LABS ANNOUNCED A 2.3 BILLION DOLLAR TAKEOVER BID FOR CROATIA'S PLIVA ON JUNE 28, MARKING THE LARGEST SINGLE FOREIGN INVESTMENT IN CROATIA AND SPARKING A BIDDING WAR WITH RIVAL SUITOR ACTAVIS PHARMACEUTICALS OF ICELAND. ALTHOUGH BOTH PLIVA'S CEO AND THE GOC HAVE PUBLICLY ENDORSED A PLIVA-BARR MERGER, ACTAVIS RAISED THE STAKES LAST WEEK, REPORTEDLY BUYING NEARLY 10 PERCENT OF PLIVA'S SHARES. BARR HAS NOT BEEN ABLE TO PURCHASE SHARES, PENDING REGULATORY APPROVAL IN THE U.S., GERMANY AND CROATIA, BUT COMPANY OFFICIALS REMAIN CONFIDENT THAT THEIR OFFER WILL PREVAIL. EMBASSY HAS USED RECENT MEETINGS WITH GOC OFFICIALS AND PRESS STATEMENTS TO UNDERScore THE BENEFITS BOTH FOR CROATIA AND PLIVA OF BARR'S OFFER.
END SUMMARY

BIDDING WAR

12. CROATIAN PHARMACEUTICAL HEAVYWEIGHT PLIVA IS THE OBJECT OF A BIDDING WAR BETWEEN NJ-BASED BARR LABS AND ACTAVIS OF ICELAND. PLIVA PUT ITSELF ON THE MARKET AND HIRED DEUTSCHEBANK AS ITS FINANCIAL ADVISOR, FOLLOWING WHAT IT CONSIDERED A HOSTILE AND LOW BID OFFER FROM ACTAVIS OF \$1.6 BILLION IN THE SPRING. AT A RECEPTION HELD JUNE 28 IN ZAGREB, OFFICIALS FROM PLIVA AND BARR ANNOUNCED THAT THE TWO COMPANIES HAD REACHED AN AGREEMENT FOR BARR TO ACQUIRE PLIVA FOR \$2.2 BILLION. HOWEVER, AT THE SAME TIME ACTAVIS MADE A COUNTER OFFER AND BEGAN BUYING PLIVA SHARES ON THE OPEN MARKET. BARR COUNTERED, UPPING ITS OFFER TO \$2.3 BILLION. BARR SAID IT WOULD PAY PLIVA SHAREHOLDERS 743 KUNA (\$131.28) PER SHARE, AS WELL AS A 12 KUNA (\$2.12) DIVIDEND, FOR A TOTAL CASH CONSIDERATION OF 755 KUNA (\$133.40) PER SHARE. THE CROATIAN PRESS HAS CORRECTLY CALLED BARR'S OFFER THE LARGEST U.S. INVESTMENT EVER IN CROATIA.

Barr's Plans for Pliva

13. BARR AND PLIVA ARE CURRENTLY ASSOCIATED THROUGH A JOINT VENTURE TO CREATE A GENERIC BIOLOGICAL VERSION OF A TREATMENT USED TO REGULATE WHITE BLOOD CELL PRODUCTION. THROUGH PLIVA, BARR WOULD GAIN ENTRY INTO RUSSIAN AND OTHER EASTERN EUROPEAN MARKETS, AS

WELL AS THE UK, GERMANY, SPAIN AND ITALY. A BARR-PLIVA UNION WOULD DOUBLE BARR'S ANNUAL SALES TO \$2.5 BILLION AND BOOST THEIR COOPERATION IN RESEARCH AND GENERICS.

¶4. BARR OFFICIALS SAID THE COMPANY WILL MAINTAIN PLIVA'S HEADQUARTERS IN ZAGREB AND KEEP ITS SENIOR MANAGEMENT IN PLACE. BARR HAS ABOUT 2,000 EMPLOYEES WHILE PLIVA HAS 6,000, INCLUDING SOME IN EAST HANOVER, N.J.

ACTAVIS STILL LURKING

¶5. ACTAVIS HAS NOT GIVEN UP YET, NOTING THAT BARR STILL NEEDS A SUCCESSFUL REGULATORY REVIEW IN GERMANY, THE HART-SCOTT-RODINO CLEARANCE IN THE U.S. AND APPROVAL FROM THE CROATIAN AGENCY FOR SUPERVISION OF FINANCIAL SERVICES (HANFA). ACTAVIS CLAIMED IT DID NOT NEED THOSE APPROVALS, BUT PLIVA OFFICIALS HAVE SAID THAT IS NOT ENTIRELY TRUE.

¶6. MEANWHILE ACTAVIS HAS ALSO BEEN BUYING SHARES OF PLIVA ON THE OPEN MARKET, WHILE BARR AWAITS REGULATORY APPROVAL. AS A RESULT, ACTAVIS NOW OWNS 9.7 PERCENT OF PLIVA SHARES OUTRIGHT AND HAS OPTIONS ON A FURTHER 10.7 PERCENT. BARR CALLED ON PLIVA STOCK-HOLDERS JUNE 30 NOT TO SELL THEIR SHARES IN ORDER TO ALLOW REGULAR BIDDING. PLIVA OFFICIALS ALSO ASKED SHAREHOLDERS TO REFRAIN FROM SELLING STOCK UNTIL ISSUES REGARDING THE OFFERS ARE RESOLVED.

CURRENT STATE OF PLAY

¶7. Pliva publicly endorsed Barr and the GOC echoed this endorsement, saying it is more important to

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ensure the Pliva brand will continue, that production will continue in Croatia and that the company's workforce in Croatia will not be reduced, than to gain an extra 10 kuna (\$1.76) per share. The GOC, which retains 17 percent of Pliva's shares, and Pliva officials feel more secure with Barr than with Activas, which reputedly has links to Russian capital.

¶8. Although Actavis officials also have said they plan to retain the Pliva name in Croatia and transfer some production to Croatia, analysts doubt Actavis' true intentions. They point to Actavis' activities in other countries where it operates with a significantly cheaper labor force. Actavis has apparently been on an acquisition binge in the last few years, acquiring a portfolio of companies it is yet to integrate and a large amount of debt in the process.

¶9. Pliva officials said U.S. anti-trust agencies need to resolve issues regarding both offers. They also note that, according to the Croatian Takeover Law, once a party directly or indirectly acquires over 25% of the voting shares of an issuer, it is obligated to immediately inform the issuer, the public and HANFA.

¶10. Post has used recent meetings with the GOC, including Ambassador's farewell calls, to support Barr. The GOC is eager to see this deal succeed, which would not only be a good outcome for Pliva, but would also send a signal of confidence about Croatia's investment climate.

DELAWIE